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EXTENSIONS TO MALNIGHT'S FRAMEWORK FOR GLOBALIZATION PROCESS : THE ROLE OF CROSS-BORDER REGIONAL INTEGRATION

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Extensions to Malnight's Framework for Globalization Process: The Role of Cross-Border Regional Integration

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Abstract

In this paper, we present three arguments for extending Malnight's recent work on globalization processes. In particular, we argue what kind of role can regional cross-border integration play in this process. We examine three of these roles, based on our on going research: its role within a global network, its role in getting the integration-responsiveness mix right and its role as a learning and landing platform.

Introduction

Malnight's recent article in SMJ (1995) discussing the structural and strategic evolution of Eli Lilly is a timely and interesting contribution to the globlization literature, which too often tends to ignore the issues related to the globalization processes. Malnight proposes a model of globalization for ethnocentric firms, following a four stage process of appendage, participation, contribution and integration. A similar analysis was published in JIBS (Malnight, 1996), looking at globalization for a decentralised firm, in this case Citibank. Although Malnight denies he has a direct interest in the literature on the internationalisation process (see his

[1] INSEAD
[2] K. U. Leuven
[3] K. U. Leuven and INSEAD

footnote 1, 1995), his model can be seen as a useful extension of these models which often 'stop' at describing the MNC as a federation to autonomous self-standing subsidiaries.

Our interest in writing this research note is to underline Malnight's contribution, while at the same time extending his model to include some important insights gained from our research on regional integration. We would suggest that his framework can be usefully extended by adding regional integration to the globalization process. Roure et al. (1993) observed that in many companies, internationalisation has extended their managers' influence from national to regional markets, not global markets. Managing internationally mainly meant managing regionally for these managers. Our perspective on regional integration has been developed through extensive case studies at P&G Europe (1997), 3M Europe, Alcatel (case in preparation), and Eureko (a consortium of national insurance companies, case in preparation), as well as action research in a number of other companies. Each of these companies, operating in diverse industries, have restructured to some degree, creating integrated European organisations - although not all equally successfully. Thus, we would add another dimension to Malnight's model, based on our very different sample of American and European MNCs, which highlights the value of cross-border regional integration, both as a transition phase towards as well as a key element of the global network enterprise. Morrison et al. (1991) even argue that regional integration should dominate the managerial agenda - as being more urgent, more manageable and possibly most profitable in the medium term.

The Question: Should Companies 'Leap' to Global Structure?

Malnight suggests that MNCs can move from national subsidiaries to a global network, through a process of building up the relative strength and global contribution of national subsidiaries. As these subsidiaries gain strength, they eventually take their place within the global network as (nearly) equal partners with the home country organisation. Judging from his detailed description, Malnight apparently did not observe a role for regional or cross-market integration in Eli Lilly. The regional aspect was much more evident in Citibank (1996), where Malnight describes the role of Europe as a distinct region meriting focused strategy and organisational structures including a regional headquarters, although his observations are not quite integrated in his overall model.

Malnight's conclusions are undoubtedly influenced by the industrial context of his sample companies. In particular, pharmaceuticals operate in a highly regulated environment. In Europe, little common policy has developed which might shift sales and market activities from country-based to cross-border marketing policy. At the other end of the value chain, the massive R&D investments required to create and test new compounds probably outstrip the economies of scale achievable through a regional approach. Financial services have been more affected by regional economic policy, and Citibank's different strategy and organisation structure reflects this different context.

We propose three specific extensions to Malnight's arguments: first, regional cross-border integration is a key to building power bases (and competitive strength) outside the home country; second, regional strategies are a better way of getting the integration-responsiveness mix right; and third, regional integration is an important 'landing and learning' stage on the way to global integration. We will confine ourselves to using examples from our own research to illustrate our arguments; our interest here is not in reporting this research, but rather to show how regional integration can play a role in the globalization process, as described by Malnight.

The Role of Cross-border Integration within a Global Network

Malnight's arguements imply that before the global networked organisation can emerge, non-home country subsidiaries must attain a relative level of strength. Malnight builds on Bartlett and Ghoshal's (1987) argument that MNCs should behave like networks, maximizing distinct and differentiated contributions from distant subsidiaries for the whole organisation by allowing dispersion of responsibilities and power among the organisation. This means that through attaining specific competitive advantages, the subsidiaries can contribute to the MNC and influence the strategic agenda of the MNC within the home country. Morrison et al. (1991), looking at the problem of subsidiary survival in the context of global and regional markets, also highlight the need for subsidiaries to develop unique and useful competencies and thus become significant contributors to the whole company.

The argument suggests that a global network organisation cannot be created until more than one centre of excellence or strength exists. This implies that a network organisation is not simply integrated on a global or regional basis, but rather is an interdependency of specific capabilities and resources (centres of excellence). Unless some balance between the centres or nodes is created, Malnight implicitly argues, the mass of resources and relative power of the home country organisation and the headquarters will inevitably result in ethnocentric strategy process and organisation, regardless of any top management intentions to create a networked structure. This argument is logical and intuitively appealing. The issue becomes one of identifying the appropriate network nodes that will gain the critical mass to contribute to a meaningful polycentric globalization process.

The problem arises when we consider the relative size of national markets, particularly for MNCs based in the US or other large home markets. With much smaller markets available to most subsidiaries, how can the MNC create strong subsidiaries outside of the home country, with (nearly) equal and countervailing resources and power? One solution would be to build strong regional organisations. Given the relative size of the markets, regional cross-market integration may be the only way to achieve the powerful strong nodes as a necessary pre-condition for building a global network. The unit of analysis, in terms of the subsidiary in Malnight's model, thus becomes regional organisations instead of national. In this context, regional organisations can play a critical role in globalization.

We observed in our sample that the critical mass of an European organisation, as opposed to a national subsidiary, was instrumental in building competitive strengths in product innovation, manufacturing efficiency, and other critical functions. Serving a market comparable in size to the U. S. market, management were able to concentrate internal resources and gain critical expertise, in a way which was simply not feasible for the national subsidiaries. The new competitive advantages clearly became the basis for gaining power within the MNC, both through strong financial results and initiatives with global potential, balancing the traditional strong position of the home country. P&G Europe, for example, used its regional resources to create major innovations in laundry detergents (liquid and compact, for example). Today, P&G is led by European, not just American, executives; and P&G Europe executives have global leadership for some areas. Given the state of P&G's national subsidiaries and Europe's markets only ten years ago, it is hard to imagine P&G as a whole could have become so 'global' without first creating a strong European organisation.

Malnight's model implies that structure follows strategy, and strategy follows conditions in the competitive environment. In his cases, each phase in the transition process represented a viable strategic response to the then existing challenges and opportunities. In this framework, the process of building regional organisations would wait until regional markets and industries existed. In contrast to this 'fit with the environment' approach, companies like P&G management took a more active 'intent with the environment approach'. The creation of a strong regional cross-border organisation was a deliberate managerial choice in some companies, taken long before market pressures dictated the new structure. In fact, we found that in many companies management were not just reacting to external pressure from converging customer needs or regulation, but as often they were driven by internal reasons to create a critical mass of management and skilled employees. This proactive approach is similar to Morrison et al.'s findings (1991) that some subsidiary managers were actively engaged in guaranteeing their long term survival through building global strengths. Malnight's argument for strong subsidiaries seems to be supported by subsidiary managers' behaviour.

Getting the Integration - Responsiveness Mix Right

Malnight implies that the MNCs create global networked organisations in response to the global nature of competition. Few would argue with such logic, yet this perspective does not consider the dynamics of global competition sufficiently. Management in MNCs face a continuous challenge of getting the mix of integration and responsiveness right - this is an old question, with the strategic context changed. The answer today may include national, global *and* regional organisations. In some markets, the convergence of customers' needs is far from global, and yet no longer nationally specific either.

Regional integration may be an important and even a long phase in globalization process. Convergence of regulation and consumer tastes is by no means inevitable: just as separatism characterises the politics of many countries, likewise some consumer tastes may become less similar, rather than more. Within P&G Europe, for example, we found a highly integrated European organisation selling disposable diapers, and highly decentralised country organisations selling beauty products and perfumes. Thus, a framework for globalization should include some sense that global organisations are not an inevitable outcome in the life cycle for MNCs, but will be a pragmatic managerial response. This means that managers must continuously test for the appropriate degree of integration, in response to the degree of industry or market convergence and internal resource capabilities.

Globalization which tries to respond to environmental conditions must, by implication, also be flexible. This flexibility is driven by two fundamental issues: one is identifying the right mix though constant monitoring and learning, and the other is to adapt the organisation to the changing optimal mix. MNCs require organisations which are flexible over time, because the mix of integration and responsiveness must be constantly monitored and the organisation adapted to more or less convergence over time. It is essentially a delicate balancing act, maintaining flexibility and remaining alert for market convergence. Certainly the key to success in Europe seems to lie in responding appropriately to the changing requirements. Our analysis of many industries suggests this flexibility is essential in several markets. (In addition to cases mentioned above, our research includes industry analyses of temporary services, insurance and trucks.) Moving from a regional to either global or local level could pose as a less formidable problem than moving from a global to local level or vice versa. Achieving an intermediate position, i.e. regional level, allows the organisation to adjust as demands vary over time on the need to integrate or decentralise (Daniels, 1997).

Example: Differential Integration of Eli Lilly's Functions

The need for flexibility in response to actual environmental conditions is well illustrated by Malnight's description of Eli Lilly, although he did not identify this as an issue conceptually. Different functions within the firm faced different environmental and economic pressures for (global) integration and responded differently in each function. We, too, found that different functions may need to integrate slower or faster, and at different levels. For example, R&D often should go global quickly, complying with the economic demands of lower development costs, while responding to competitive markets. The value of a concentrated, critical mass of researchers focused on creating fundamental innovations perhaps can be best realised at the global level, although some adaptations probably will be required to respond to regional or national customer differences. Likewise raw materials purchasing or manufacturing may benefit from regional or global integration (depending on the costs of plants, transportation and co-ordination). Sales and marketing; more closely linked to specific customers located around the world, may find only higher costs in integrating globally, and yet benefit from regional co-ordination. Our research on functional integration echoes Malnight's findings, yet adds the possibility that the environmental and economic pressures for integration may point to a regional and not global organisation.[4]

The Value of Regional Integration as a Landing and Learning Platform

The third reason for including regional integration into the globalization framework is the value of the smaller scale integration as a learning process and intermediate goal. One manager described the experience of achieving regional integration like reaching a landing on a long staircase: the landing gave the company a shorter-term goal, and allowed them to catch their breath before moving on to full scale globalization.

Moving from national subsidiaries to a global network requires a new set of managerial tools, which cannot be developed easily within the ethnocentric

[4]We found that integration can occur can across other dimensions - processes, products, and customers. Malnight also observed integration occuring across multiple dimensions in Citibank.

organisation. New structures and procedures also must be developed, often through a process of experimentation. MNCs can use cross-border integration of subsidiaries within a region as the critical learning and experimenting phase in globalization, allowing executives, managers and employees to learn to work with other national organisations within the more manageable bounds of a region. To the extent that the integration process is managed well, and not simply presented as another restructuring project, the company can prepare for life in a global network.[5]

Our research suggests that management should get their 'Europe house' in order first, before moving on to global networks. By looking at the regional organisation holistically, management can reflect both on lessons for the process of integration, as well as structural issues of large scale cross border co-ordination. When strong regional organisations have been achieved, management can take the time to regroup resources and make new plans before the next launch to global network. Without this phase of regional integration, pushing national subsidiaries into a global networked organisation may require changes far too dramatic for organisation to survive.

In some cases, management may decide to stop at regional integration, temporarily or for a longer term. Reasons for stopping at regional could be internal (e.g. lack of skills) or external (e.g. not enough market convergence). Both these cases are legitimate rationales for preferring a collection of regional organisations over a global network. In fact, the economics of a particular industry may favour a loose federation

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[5] From the perspective of cross-cultural management, the argument in favour of cross-border integration within Europe as preparation for global integration is particular compelling. Europe's diversity, as measured for example on Hofstede's scales, is as much as nearly any other two countries in the world. If you can manage Europe, you can manage the world.

of regional organisations, each one able to derive greater economies of scale and scope than national organisations, while remaining responsive to the market. But even in such a case of a more permanent landing, learning is there to be appropriated by the organisation.

Summary and Conclusion

In conclusion, we would reiterate our appreciation of Malnight's emphasis on the process of globalization. As he points out, much research has argued that MNCs should become global networked organisations, without considering the difficult and critical managerial process involved in achieving the network. In this research note, we have presented an extension to Malnight's framework, using three mutually reinforcing arguments promoting a regional approach to cross-border integration. Cross-border regional integration may result in a 'critical mass node', with enough power and competitive strength to help form a global network organisation. The regional organisations also place the MNC at an intermediate level of analysis in the Integration-Responsiveness grid, giving more flexibility to tilt the balance in either direction as deemed suitable. Finally, we have argued that integration on a regional scale can be a critical smaller-scale learning process, a landing and learning platform on the way to an eventual global network. In this note, we have argued 'why' regional integration must be considered, but we are aware that it still does not explain the complex processes involved in achieving such integration. We concur with Malnight's agenda for future research, and call on fellow researchers in international management to join us in going beyond calls for globalization towards a better understanding of the contexts and organisational processes behind successful (and less successful) globalization outcomes.

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